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SUBJECT: IMF UNDERPLAYS IRAQ 2007 ECONOMIC GROWTH

REF: BLEIWEIS - VINOGRAD EMAIL OF 12/14/07

Classified By: Economic Minister Charles P. Ries for Reasons 1.4(b) and (d)

11. (U) This is an action request for the Department, Embassy Amman and Treasury. Please see para 6.

12. (C) On December 19, the Executive Board of the International Monetary Fund (IMF) unanimously voted to approve a new Stand-By Arrangement (SBA) for Iraq. In its attendant SBA report, the Fund projects real gross domestic product (GDP) growth for Iraq in 2007 at 1.3 percent and non-oil real GDP growth at 0.0 percent (with estimated real GDP growth in 2006 at 6.2 percent and non-oil real GDP growth at 7.5 percent). The 2007 Fund projections for Iraq are based upon incomplete data, and we believe seriously underestimate Iraq's true economic performance. Should the IMF release the new SBA report to the public with no caveats, enhanced economic activity that has resulted from security gains would be discounted. Our credibility would be seriously damaged given our consistent public message throughout the latter half of 2007 -- that the surge has successfully increased security and stability which in turn has promoted greater economic activity in Iraq.

13. (C) During a December 17 meeting, EMIN discussed the Fund's 2007 macroeconomic projections with Finance Minister Bayan Jabr. EMIN explained that the Fund's projections did not support the assertion that the security surge had spurred renewed economic activity and financial growth in both the oil and non-oil sectors. Jabr admitted that he had not reviewed the IMF report and agreed that the Fund's projections were well below his expectations. EMIN highlighted the latest International Energy Agency oil production figures which state current Iraqi oil production is at its highest level since spring 2004, thus discounting any assertion that stagnant oil output could be blamed for the Fund's 2007 economic growth projections. EMIN encouraged Jabr to reach out to Fund staff immediately to contest their projections, and Jabr agreed. EMIN also suggested that the GOI prepare a formal letter to the IMF that would accompany the Public Information Note scheduled for release by the Fund in early January.

14. (C) The Fund's growth projections for Iraq are based upon data received only through the first 6 months of 2007 (per ref), a period of time during which troop levels were still increasing, and levels of violence across Iraq remained relatively high. Oil production projections are similarly based upon first half of 2007 data. Production figures for January 2007 were abnormally low, but, with the reactivation of the northern Kirkuk-Ceyhan pipeline in late summer, oil production for the latter half of 2007 is significantly higher. According to a December 14 International Energy Agency report, oil production averaged 2.01 mbpd during 2Q 2007 and climbed to 2.11 mbpd in 3Q 2007, contrasted with an

average of 1.90 mbpd for 2006. The report adds, "(Iraq's oil production in 2007) has seen a steady improvement in net supply." Inclusion of 3Q data in Fund projections would substantially increase Iraq's growth outlook. Non-oil sector data reflects only three types of activity: electricity production, fertilizer production, and cement production. Again, reliance on first half of 2007 data presents a remarkably different picture than what the entire year has witnessed. In recent months, electricity production alone has reached record-breaking highs.

15. (C) Clearly, a lack of capacity on the Iraqi side is one of the driving factors for slow and incomplete reporting to the IMF. The Central Organization of Statistics and Information Technology (COSIT) is responsible for the lion's share of statistical reporting and in August had its deputy head (and rumored future head) assassinated. The early October assassination of the Director General for Budgets in the Ministry of Finance also exacerbates the Ministry of Finance's reporting problems.

16. (U) ACTION REQUEST: We encourage the Department, Embassy Amman, and Treasury to urge IMF interlocutors to delay public release of the SBA report for Iraq until 3Q 2007 data can be incorporated into growth projections for 2007.

CROCKER